

## Message Text

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ACTION EA-09

INFO OCT-01 EUR-12 ISO-00 SP-02 AID-05 EB-07 NSC-05

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FM AMEMBASSY TOKYO

TO SECSTATE WASHDC 7177

DEPARTMENT OF TREASURY WASHDC

INFO AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

USMISSION OECD PARIS

UNCLAS SECTION 1 OF 2 TOKYO 2798

PASS FEDERAL RESERVE, LABOR AND EXIMBANK

E.O. 11652: N/A

TAGS: EFIN, JA

SUBJECT: FINANCIAL AND ECONOMIC DEVELOPMENTS - WEEK OF FEB 18-25

1. SUMMARY: A FEW MORE BRIGHT SPOTS APPEARED THIS WEEK, STRENGTHENING HOPES IN SOME QUARTERS THAT THE JAPANESE RECOVERY PROCESS IS REALLY UNDER WAY. JAN DEPARTMENT STORES SALES RECORDED STRONG ADVANCE, DEC INDUSTRIAL PRODUCTION AND SHIPMENTS DATA WERE REVISED UPWARD TO SHOW HEALTHY INCREASES, AND PUBLIC CONSTRUCTION EXPENDITURES ROSE IN NOV. CORPORATE PROFITS ARE NOW RECOVERING BUT RESULTS ARE MIXED: ONE OUT OF FOUR COMPANIES WILL RECORD LOSSES, PROFITS ARE BEING REALIZED ON EQUITY AND LAND SALES, AND PROFIT MARGINS REMAIN DEPRESSED DESPITE SOME PRICE INCREASES. BANK OF JAPAN IS CAREFULLY WATCHING DEGREE OF MONETARY EASE. END SUMMARY.

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2. DEPARTMENT STORE SALES ROSE 5.3 PERCENT IN JAN ON

SEASONALLY ADJUSTED BASIS, RECORDING LARGEST MONTHLY GAIN IN OVER A YEAR. JAN INCREASE LIFTED DEPARTMENT STORE SALES INDEX (JEI 302) ABOVE PRIOR PEAK RECORDED IN JUNE 1975. BY COMMODITY, LARGEST GAINS WERE REGISTERED FOR CLOTHING (UP 9.0 PERCENT) AND HOUSEHOLD ITEMS (UP 8.5 PERCENT). DEPT STORE SALES INDEX FOR SIX LARGEST METROPOLITAN AREAS ROSE MORE THAN NATIONAL AVERAGE, I.E. BY 6.3 PERCENT ABOVE PRIOR MONTH LEVEL.

(INDEX, 1970-100, S.A.) (PCT CH FROM PRIOR MO)

NOV	234.6	2.9
DEC	228.4	- 2.6
JAN	240.4	5.3

3. DEC INDUSTRIAL PRODUCTION AND SHIPMENTS DATA WERE REVISED UPWARD TO SHOW HEALTHY INCREASES FOR THAT MONTH. INDEX OF MINING AND MANUFACTURING PRODUCTION (JEI 212) ROSE 0.8 PERCENT FROM PRIOR MONTH RATHER THAN ONLY 0.2 PERCENT ORIGINALLY ESTIMATED, AND INDEX OF PRODUCERS' SHIPMENTS FOR MINING AND MANUFACTURING INDUSTRIES (JEI 1239) ROSE BY 2.0 PERCENT RATHER THAN A MERE 0.4 PER CENT. MITI OFFICIALS SAID THAT SHARP INCREASES IN FOOD AND TOBACCO PRODUCTION (UP 6.3 PERCENT) AND SHIPMENTS (UP 10.2 PERCENT) APPEARED TO REFLECT ADVANCE ORDERS FOR BEER, SAKE, AND TOBACCO BEFORE HIGHER TAXES ON THESE ITEMS TOOK EFFECT IN JAN. DETAILS OF DEC PRODUCTION, SHIPMENTS, AND INVENTORIES ALREADY REPORTED TOKYO 1457.

4. PUBLIC CONSTRUCTION EXPENDITURES ROSE SHARPLY IN NOV ON SEASONALLY ADJUSTED BASIS. WHOPPING 74.8 PERCENT JUMP FROM PRIOR MONTH BROUGHT CASH DISBURSEMENTS FOR PUBLIC CONSTRUCTION (JEI 164) TO SECOND HIGHEST LEVEL REGISTERED IN 1975. HOWEVER, MONTHLY MOVEMENTS OF THIS SERIES TEND TO FLUCTUATE SHARPLY, EVEN AFTER ADJUSTMENT FOR SEASONAL INFLUENCES. GOJ OFFICIAL INFORMALLY CAUTIONED EMBASSY THAT (BASED ON DATA NOT YET PUBLISHED) LEVEL OF DISBURSEMENTS IN NOV 75-JAN 76 PERIOD WERE IN FACT SLIGHTLY BELOW LEVEL OF JULY-SEP 75 PERIOD.

PUBLIC CONSTRUCTION EXPENDITURE, S.A.

	BIL YEN	PCT CHANGE FROM PRIOR MONTH
SEP	263.1	- 12.0

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OCT	210.1	- 20.1
NOV	367.3	74.8

5. CORPORATE PROFITS ARE NOW RECOVERING BUT STILL REMAIN BELOW A YEAR AGO LEVEL, A LEADING AND INFLUENTIAL NEWS-PRESS "JAPAN ECONOMIC JOURNAL" PREDICTED THIS WEEK. JEJ CONDUCTED SURVEY AMONG 379 LEADING NON-FINANCIAL CORPORATIONS LISTED ON FIRST SECTION OF TOKYO STOCK EXCHANGE

(CAPITALIZED AT ONE BIL YEN AND MORE). SALES OF THOSE CORPORATIONS ARE PROJECTED TO GROW BY 4 PERCENT TO A NEW HIGH YEN49,959 BIL (\$165.4 BIL) DURING HALF-YEAR ACCOUNTING PERIOD ENDING IN MAR 76, IN CONTRAST TO A DECLINE IN SALES DURING THE PREVIOUS SIX-MONTH PERIOD ENDING IN SEP 75 (THE FIRST SUCH DROP IN THE PAST 13 YEARS). INCREASES IN SALES IN THE CURRENT PERIOD ARE MOSTLY DUE TO PRICE HIKES ATTRIBUTED TO SHARP PRODUCTION CUTBACKS AND RELAXED GOJ GUIDELINES ON PRICE INCREASES. CURRENT PROFITS, ON THE OTHER HAND, WILL RISE DRAMATICALLY BY 50.7 PERCENT TO YEN510 BIL (\$1.7 BIL) DURING OCT 75-MAR 76 PERIOD. THOSE PROFITS ARE STILL ONLY ONE-HALF OF THE PEAK AMOUNT OF YEN1,113 BIL (\$3.7 BIL) RECORDED DURING SIX-MONTH PERIOD ENDING IN SEP 73. PROFIT TO SALES RATIO WILL BE ONLY 1.02 PERCENT BY MAR THIS YEAR AS COMPARED TO 1.48 PERCENT A YEAR AGO OR THE PEAK AT 3.34 PERCENT REACHED IN SEP 73. THAT IS AN INDICATION OF TY VERY WEAK RECOVERY IN CORPORATE EARNING POWER DURING THE CURRENT SLOW ECONOMIC REVIVAL. AFTER-TAX PROFITS OF THOSE LISTED CORPORATIONS WILL INCREASE MORE SHARPLY THAN CURRENT PROFITS, BY 77.5 PERCENT TO YEN394 BIL (\$1.3 BIL) THIS SPRING AND RECOVER TO 80 PERCENT OF THE PEAK LEVEL REACHED IN SEP 73. JEJ EXPLAINED, HOWEVER, THAT THE SHARP RECOVERY IN AFTER-TAX PROFIT RESULTS MOSTLY FROM RECENT SALES OF EQUITY HOLDINGS AND LAND TO COMPENSATE FOR UNSATISFACTORY PROFITS ON CURRENT OPERATIONS. DESPITE INDICATIONS OF IMPROVEMENTS IN AGGREGATE PROFITS, THERE IS STRIKING DIVERSITY IN PERFORMANCE IN DIFFERENT INDUSTRIES. ONE OUT OF FOUR COMPANIES WILL STILL REMAIN IN DEFICIT (CURRENT PROFIT) THIS SPRING (MOST OF WHICH ARE IN MANUFACTURING INDUSTRIES, SUCH AS TEXTILES, CEMENT, IRON AND STEEL, AND MACHINE TOOLS), JEJ PREDICTED. NEVERTHELESS, MANUFACTURING INDUSTRIES UNCLASSIFIED

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AS A WHOLE WILL RECOVER MORE SHARPLY THAN NON-MANUFACTURERS. CHEMICALS AND PAPER AND PULP MANUFACTURERS WILL NO LONGER RECORD DEFICITS WHILE AUTOS AND HOUSEHOLD ELECTRIC APPLIANCE INDUSTRIES WILL CONTINUE VERY STRONG PROFIT REBOUND. CURRENT AND AFTER-TAX PROFITS OF MANUFACTURING SECTOR WILL GROW VERY SUBSTANTIALLY, BY MORE THAN 300 PERCENT RESPECTIVELY DURING HALF-YEAR PERIOD ENDING IN MAR THIS YEAR, ALTHOUGH THAT FOLLOWS LARGE DECLINES IN THE PRIOR PERIOD OF MORE THAN 70 PERCENT. THE NON-MANUFACTURING SECTOR, ON THE OTHER HAND, WILL RECORD A DECLINE OF 6 PERCENT IN CURRENT PROFIT AND AFTER-TAX PROFIT WILL REMAIN ALMOST UNCHANGED (ONLY UP 0.8 PERCENT) FROM PRECEDING TERM (ENDING SEP 75). ROUGHLY ONE-QUARTER OF MAJOR CORPORATIONS WILL PAY SMALLER OR NO DIVIDENDS THIS SPRING. THAT IS AS MANY

AS THE ALL-TIME HIGH RECORD REGISTERED IN MAR LAST YEAR.  
42 COMPANIS OUT OF SOME 550 LISTED IN THREE MAJOR STOCK  
MARKETS (TOKYO, OSAKA AND NAGOYA) WILL PAY NO DIVIDENDS  
WHILE 92 WILL REDUCE THEIR DIVIDEND PAYMENT THIS SPRING,  
THE REPORT INDICATED.

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INFO OCT-01 EUR-12 ISO-00 SP-02 AID-05 EB-07 NSC-05

CIEP-02 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00

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R 250900Z FEB 76

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC 7178

DEPARTMENT OF TREASURY WASHDC

INFO AMEMBASSY BONN

AMEMBASSY LONDON

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FOLLOWING TABLE SHOWS DEVELOPMENT OF CORPORATE  
PROFITS ON A BASIS OF SEMI-ANNUAL ACCOUNTING  
TERM, AS COMPILED BY JEJ SURVEYS.

CORPORATE PROFIT POSITION (IN BIL YEN)

	CURRENT	AFTER-TAX	PROFIT RATIO
SALES	PROFITS	PROFITS	TO SALES
MAR 76			
(ESTIMATE)	49,959 (4.0)	510 (50.7)	394 (77.5) 1.02 (45.7)
SEP 75	48,033(-2.4)	338 (-53.5)	222 (-37.7) 0.70 (-52.7)
MAR 75	49,234	729	356 1.48
SEP 74	44,572	888	422 1.99

SEP 73 33,318 1,113 483 3.34

NOTES: (1) PERCENT CHANGES FROM PRIOR PERIOD SHOWN IN PAREN FOR LAST TWO SEMI-ANNUAL TERMS ENDING IN MAR 76.

(2) THERE ARE SMALL CHANGES IN NUMBER OF LISTED CORPORATIONS AS WELL AS IN COMPUTATION OF PROFITS (DUE TO PREVISION OF COMMERCIAL LAW IN APR 75), WHICH MAY AFFECT COMPARABILITY  
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BETWEEN EARLIER AND LATER SURVEY PERIODS.

6. OTHER FINANCIAL DEVELOPMENTS:

A. BANK LENDING: BOJ HAS COMMENTED ON SHARP INCREASE IN "OFF-RECORD" LOANS (I.E. IN EXCESS OF ALLOWABLE CREDIT CEILINGS) AND HAS REQUESTED CITY BANKS TO USE 20 PERCENT OF LOANS AUTHORIZED FOR THE CURRENT QUARTER TO ELIMINATE "OFF-RECORD" LOANS THEY HAVE ALREADY BOOKED. OFF-RECORD LOANS INCREASED SHARPLY AFTER BOJ STARTED TIGHT-MONEY POLICY; OUTSTANDING BALANCE OF SUCH LOANS REPORTEDLY ROSE FROM YEN200 BIL AT END OF 1972 TO YEN1,000 BIL AT END OF LAST SEP. LIMIT ON FIRST QUARTER LOAN GROWTH IMPOSED ON 13 CITY BANKS THROUGH BOJ "WINDOW GUIDANCE" WAS YEN1,180 BIL (AS REPORTED IN WEEKLY DEVELOPMENTS CABLE DATED JAN 21, 1976, TOKYO 930). CONSEQUENTLY, NEW BANK LOANS AVAILABLE FOR CURRENT JAN-MAR QUARTER ARE REDUCED TO AROUND YEN944 BIL, ROUGHLY THE SAME AMOUNT AS OF SAME QUARTER OF LAST YEAR. BOJ ALSO REQUESTED CITY BANKS TO LIQUIDATE OUTSTANDING LOANS IF PRIVATE ENTERPRISES WISH TO REPAY THEM. PURPOSE OF BOJ REQUEST IS TO ACHIEVE "PROPER DISTRIBUTION OF FUNDS" I.E. INCREASING LIQUIDITY WHERE NEEDED BUT SIMULTANEOUSLY REDUCING LIQUIDITY FOR CORPORATIONS THAT HAVE EXCESS FUNDS. POSSIBILITY OF EXCESS LIQUIDITY DUE TO BOJ RELAXATION OF MONETARY POLICY HAS BEEN A MATTER OF CONCERN RECENTLY. BOJ GOVERNOR MORINAGA REPEATEDLY DENIED THAT LIQUIDITY IS EXCESSIVE BUT SAID THAT BOJ WILL WATCH SITUATION CAREFULLY SO AS TO MAINTAIN ADEQUATE FUNDS SUPPLY.

B. LOAN RATES: BOJ GOV MORINAGA HAS REPEATEDLY ASKED CITY BANKS TO LOWER THEIR "EFFECTIVE" LOAN RATES. RESPONDING MORINAGA'S REQUEST COMMERCIAL BANKS LOWERED THEIR RATES ON LOANS ACCOMPANIED BY LEGALLY PERMITTED "COMPENSATING BALANCES" BY AROUND 0.25 PERCENT, IN THE MIDDLE OF JAN THIS YEAR. BANKS OFTEN MAKE LOANS TO PRIVATE ENTERPRISES IN RETURN FOR FUNDS DEPOSITED WITH THOSE BANKS, AND LOAN RATES ARE USUALLY 0.5 PERCENT OR 1 PERCENT HIGHER THAN DEPOSIT RATES PAID. AND THEREFORE BELOW CONVENTIONAL LOAN RATES. AT END OF JAN  
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THIS YEAR, AVERAGE CONTRACTED LENDING RATE OF 13 CITY BANKS DECLINED BY 0.142 PERCENT AGE POINTS FROM PRIOR MONTH TO 8.233 PERCENT PER ANNUM. MONTHLY DECLINE IN JAN IS SUBSTANTIALLY LESS THAN 0.266 PERCENTAGE POINTS REGISTERED IN DEC 75 BUT WAS THE THIRD SHARPEST MONTHLY DROP SINCE BOJ IMPLEMENTED FIRST DISCOUNT RATE CUT IN APR LAST YEAR. SOME OBSERVERS IN TOKYO NOTED SLOWING RATE OF DECLINE IN BANK LENDING RATES AND URGED BOJ TO ANNOUNCE YET ANOTHER DISCOUNT RATE CUT, WHILE OTHERS EXPLAINED JAN MONTHLY DECLINE WAS SATISFACTORY AFTER TAKING INTO CONSIDERATION USUAL SEASONAL FLUCTUATION.

C. STOCK MARKET: PRICES ON TSE HAVE BEEN SHOWING MIXED PICTURE WITH MOVEMENTS BOTH UP AND DOWN. EVEN AFTER THE NEWS OF SHARP REBOUND OF NEW YORK STOCK PRICES ON FEB 20, JAPANESE STOCK PRICES HAVE INCREASED ONLY SLIGHTLY DESPITE SYNCHRONIZED WORLDWIDE MOVEMENT OF STOCK PRICES SINCE LAST FALL. DURING THREE BUSINESS DAYS (FEB 20-24) NIKKEI DOW-JONES STOCK AVERAGE ROSE BY ONLY YEN38.9 TO YEN4,500.53 AND STILL HAD NOT RECOVERED FROM DECLINES OF YEN78.92 RECORDED DURING PRECEDING TWO DAYS. DELAY OF DIET DISCUSSIONS AND PASSAGE OF JFY 76 BUDGET DUE TO LOCKHEED SCANDAL HAS CREATED CONCERN THAT IT WILL ULTIMATELY DELAY NEW GOVERNMENT SPENDING AND THEREFORE ECONOMY'S FURTHER RECOVERY, AND THIS MAY HAVE HAD ADVERSE IMPACT ON STOCK PRICE MOVEMENTS.  
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